LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6332
BILL NUMBER: SB 423

NOTE PREPARED: Jan 10, 2003
BILL AMENDED:

SUBJECT: Property Tax Credit for Low-Income Elderly Homeowners.

FIRST AUTHOR: Sen. Craycraft
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a property tax credit payable from the Property Tax Replacement Fund to homestead owners who are at least 65 years of age and who have adjusted gross incomes of less than $30,000. This bill appropriates money from the Property Tax Replacement Fund to pay for the property tax credits.

Effective Date: January 1, 2004.

Summary of Net State Impact: Beginning with taxes payable in CY 2003, this proposal would permit homeowners who are at least 65 years of age before January 1 of the year in which taxes are payable to file a statement with the county auditor claiming a credit against their net property tax bill. The credit would be adjusted according to an income-based formula. The dollar amount of the credit is estimated at $21 M to $ 28 M for CY 2004, CY 2005, and CY 2006. The cost to the state is estimated at $11 M to $ 14 M for FY 2004 (½ year), and $21 M to $28 M each for FY 2005 and FY 2006. This credit would be paid from the Property Tax Replacement Fund (PTRF). This fund is annually supplemented by the General Fund to meet obligations. An increase in expenditures from the PTRF would ultimately impact the General Fund.

Since property tax bills for those taxpayers that qualify for this new property tax credit would be reduced under this bill, the amount of the income tax deduction that they would qualify for would also be reduced. The net cost of the property tax credit to the state (credit cost less income tax gain) is estimated to be at least $10 M to $13 M for FY 2004, and $20 M to $27 M in both FY 2005 and FY 2006.

Explanation of State Expenditures: The credit would be adjusted according to the following income-based formula. The maximum credit would be equal to one-half of the taxpayer's net property tax bill for a taxpayer with no adjusted gross income (AGI). The credit would be reduced to zero for taxpayers with an AGI equal to or greater than $30,000. Taxpayers with an AGI greater than zero but less than $30,000 would be eligible for a credit equal to the following formula:

$$\text{Credit} = \tfrac{1}{2} * \text{Net Property Tax Payment} * (1 - \text{AGI}/30{,}000)$$

For example, the credit would be equal to 1/4 of the taxpayer's net property tax bill for a taxpayer with an AGI of $15,000.

Estimation Issues: The impact of this bill was estimated using the Indiana Department of State Revenue data for income taxes paid in CY 2000 adjusted for a 2% annual increase in AGI, property tax projections consistent with HEA 1001-2002 (ss), and population increases based on Bureau of Census forecasts.

The total cost estimate may also be below the actual cost as a consequence of reassessment tax increases. Homes owned by those over 65 may be older and could experience a smaller reduction than the average after reassessment, shifting a larger proportion of the levy to those taxpayers.

The fiscal impact was assessed using CY 2000 state income tax records. This approach excludes property owners who did not file a state income tax return in CY 2000 who would be eligible for the credit under the proposed rule. This issue was explored by estimating the number of taxpayers eligible for either the over-65 or blind/disabled deductions in CY 2000 from state income tax records and then comparing it to the actual number of deductions from Department of Local Government (DLGF) records. The estimate from income tax records are 10% higher than using DLGF records.

Based on DLGF records, 76% of taxpayers receiving either the over-65 or blind/disabled property tax deduction in CY 2000 received the over-65 deduction. It is not possible to determine from state income tax records whether or not a deduction was claimed for being over 65 or blind/disabled. The analysis for this proposed credit includes a range, with the lower end based on the 76% proportion observed in CY 2000 and the high end based on the assumption that all state tax records used came from taxpayers claiming the over-65 property tax deduction.

The estimate also assumes that all those who filed for the over-65 property tax deduction will file for this credit as soon as it becomes available.

Fiscal Analysis: In CY 2004, the net property tax to be paid by all homeowners age 65 and over regardless of income is estimated at $175 M to $ 230 M, increasing to $179 M to $ 234 M in CY 2005 and $182 M to $238 M in CY 2006. The dollar amount of the credit is estimated at $21 M to $ 28 M for CY 2004, CY 2005, and CY 2006. The cost to the state is estimated at $11 M to $ 14 M for FY 2004 (½ year), and $21 M to $28 M each for FY 2005 and FY 2006.

This credit would be paid from the Property Tax Replacement Fund (PTRF). This fund is annually supplemented by the General Fund to meet obligations. An increase in expenditures from the PTRF would ultimately impact the General Fund.

Explanation of State Revenues: The credit would also reduce the cost of the state income tax deduction for property tax payments up to $2,500. Since property tax bills for those taxpayers that qualify for this new property tax credit would be reduced under this bill, the amount of the income tax deduction that they would qualify for would also be reduced. The reduction in the amount claimed would result in a gain in state revenue estimated to be $400,000 to $500,000 in FY 2005 and $700,000 to $900,000 in FY 2006. Revenue from the Adjusted Gross Income Tax is deposited in the General Fund and the Property Tax Replacement Fund.

The net cost of the property tax credit to the state (credit cost less income tax gain) is estimated to be at least $10 M to $13 M for FY 2004, and $20 M to $27 M in both FY 2005 and FY 2006.

Explanation of Local Expenditures: Local governments would be responsible for printing and processing the claim forms for the credit. These would create an indeterminable cost increase for the County Auditors' offices. County Auditors are funded from the county General Fund.

Explanation of Local Revenues: There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

State Agencies Affected: Department of Local Government Finance; Indiana Department of State Revenue.

Local Agencies Affected: County Auditors.

Information Sources: Indiana Department of State Revenue 2000 database; Local Government Database; Bureau of the Census SF3; Department of Local Government Finance/LSA Property Tax Database.

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